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Report Highlights:

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- CNC LEAVES OPEN POSSIBILITY OF RICE, WHEAT, AND CORN RATIONING
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Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico City [MX1]
[MX]

Welcome to Hot Bites from Mexico, a weekly review of issues of interest to the U.S. agricultural community. The topics covered in this report reflect developments in Mexico that have been garnered during travel around the country, reported in the media, or offered by host country officials and agricultural analysts. Readers should understand that press articles are included in this report to provide insights into the Mexican "mood" facing U.S. agricultural exporters. Significant issues will be expanded upon in subsequent reports from this office.

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HIGHER INPUT COSTS LEAD TO INCREASE IN FOOD AND BEVERAGE COSTS

The high costs of inputs like flour, corn, wheat, and eggs, and the increase in energy prices, have forced food and beverages companies to raise their prices. According to analysts, these higher prices are expected to continue for the foreseeable future. Eduardo Estrada, a Banamex analyst explained that practically all food companies have adjusted their prices above the rate of inflation because of the scarcity of some inputs. FEMSA, Gruma, Grupo La Moderna, Herdez, Bafar, Grupo Modelo and Bachoco have also revamped their production strategies to reduce expenses and increase their productivity and efficiency in order to mitigate the impact on consumers. FEMSA, the Mexico Coca-Cola bottler, increased their prices by 1.2% in the first quarter of the year, which was in addition to the 1% increase made in the first trimester of 2007. The firm also admitted that there may be more prices adjustments in the future. Bimbo increased its prices at the end of March and is contemplating more adjustments later in the year. Grupo la Moderna increased prices in 2007 by 10%. Bachoco increased chicken prices by 8.6%, and egg prices by 22.9% during the first quarter. (Source: Reforma 04/29/2008)

CNC LEAVES OPEN POSSIBILITY OF RICE, WHEAT, AND CORN RATIONING

The National Campesino Confederation (CNC) is open to the possibility that in the next few months it may be necessary to ration the sale of rice, wheat, sorghum, and yellow corn, since domestic production of these cereals and oilseeds covers only 60% of domestic demand. Cruz Lopez Aguilar, leader of the CNC, stated during the fifth anniversary of the National Agreement for the Countryside that, "...there is a big risk of a short supply because there was more importation of products and no incentive for production of grains and oil seeds." Cruz Lopez warned that the government, private sector, and society will try to make the producers in the countryside responsible for the current food price crises. However, he stated that even though the prices of grains and oilseeds has been very low for the last 14 years, low levels of production were the result of the price of inputs and the lack of financial mechanisms available to producers. Now, claimed Cruz Lopez, the government is attempting to make the agricultural producers responsible for the movements of the market. The problem, as he sees it, is that in the middle of this international food crisis, the government does not consider it necessary to regulate fertilizer and seed prices, or stop the monthly increase of electricity, gas, diesel, and ammonia prices, or even intervene to stop transnational firms from buying up domestically produced crops. (Source: La Jornada 04/29/2008)

MEXICO ON ALERT DUE TO WORLD FOOD SHORTAGES

Mexico is in a state of alert due to the increase in world food prices, stated Jaime Yesaki, President of the National Agricultural Council. "Fortunately, we have production and supply. However, there is a warning sign since the country imports 17 million tons of grains a year, which puts us in a dependency situation." Yesaki rejected the notion that there will be restrictions in the sale of seeds, as is happening in other nations. He also discarded a continued increase in the price of food. "I foresee that national production will increase. We have the capacity for that. Therefore, we will have greater supply, and with that we will be able to deactivate this alarm. Now is the time, and this is the job that the producers, legislators and Federal Government are charged with." Yesaki commented that forage grains, oil seeds, meat and milk products are the most sensitive to international price fluctuations. (Source: la Jornada 04/28/2008)

CUSTODIANS OF CORN

The first tests of transgenic seed plantings in Mexico took place in 1988; the third test in the world after France and the United States. However, the law for Genetically Modified Organisms didn't pass until three years ago and the law's regulations came out only a month ago opening the door for transgenic corn and beans. The fear is that this seed will significantly impact Mexico, the origin of corn, which has the largest number of varieties of corn in the world with over 1,000 different varieties. Public banks keep the majority of Mexican varieties, and there are efforts to continue providing these reserves with native genes and to promote their planting and consumption throughout the country. (Source: Expansion 04/28/2008)

FRUCTOSE SUITS AGAINST MEXICO NOT YET SOLVED

Four fructose producers in the United States have filed legal suites against the Government of Mexico, claiming the 20 percent special tax that was charged to drinks made with fructose in 2002 was illegal according to the NAFTA. The Undersecretary of International Trade Negotiations of the Secretary of Economy, Beatriz Lyceum, explained that the first verdict in November 2007, forces Mexican authorities to pay \$33 million dollars plus interest to the companies Archer Daniels Midland (ADM) and Tate & Lyle (TLIA), but that there are two more claims for around \$400 million dollars from the companies Corn Products International (CPI) and Cargill. ADM and TLIA appealed the first verdict on February 11, 2008 and asked that the resolution be revised; claiming compensation should be \$200 million. Also, the verdict from the dispute with Cargill is about to be issued. In that case, the company is demanding compensation of \$125 million. In the case of CPI, the dispute remains in process, with Mexico having until May 6 to respond to the company's complaint which seeks \$235 million in compensation. (Source: El Financiero 04/29/2008)

MEXICO IMPORTS MORE EXPENSIVE RICE

The National Campesino Confederation (CNC) did not rule out the fact that in a few months, rice, wheat, sorghum, and yellow corn will be rationed considering the increase in food prices. Mexican imports of these products can only cover 60 percent of the internal demand. "We have a big risk of a shortage of food because the import price of these products continues to increase," said Cruz Lopez Aguilar, leader of the CNC. Antonio de Alba Villar, Advisor for the rice company Covadonga, said that the price of rice that Mexico buys from the United States has increased about 70% from September 2007. (Source: La Jornada 04/29/2008)

THE COUNTRYSIDE IS LOSING JOBS

Between 2005 and 2007, Mexican farms registered a net loss of 187,000 jobs. According to data from the National Job and Occupation Survey (ENOE), the states that experienced major losses were: Tabasco with 61,560; Guanajuato with 46,786; Jalisco with 35,658; Chiapas with 29,710 and Sinaloa with 18,682. However other states, like Coahuila, Colima, Chihuahua, Mexico, Durango and Guerrero, increased the number of rural jobs during the same period. Experts state that this situation is due to the industrialization of the rural communities and the negative impact of NAFTA due to the productivity of agricultural producers in the United States and Canada. (Source: Reforma 04/26/2008)

POTATO PRODUCTION TO INCREASE

Mexico has heeded the call of the United Nations (UN) to increase production of potatoes. The UN is encouraging an increase in potatoes because it is cheaper than other products (corn, wheat, etc.) and can be used to feed those living in poverty conditions. Secretary of Agriculture, Alberto Cardenas Jimenez, added that 300 million tons of potatoes are produced annually in the entire world, and the principal provider and consumer is China. In Mexico, potatoes are the 35th most planted product, but it is the ninth most valuable. Mexico has approximately 8,700 producers dedicated to the cultivation of potatoes in 12 states and generates 17,500 direct jobs and over 51,600 indirect jobs. (Source: SAGARPA bulletin Note 082/08, April 29, 2008)

MEXICAN CORN GROUPS REQUEST ELIMINATION OF AGRICULTURAL TARIFFS

Many analysts throughout Mexico have stated that in view of high prices on grains and cereals, that Mexico should temporarily eliminate tariffs on imports. Mexico has only eliminated tariffs on grains from the United States, but changing production patterns in the United States make making it more important to look for new markets. Last year, the Secretariat of Economia announced that this year the imports of tariff-free wheat would be allowed from all WTO member nations. "Mexico has to eliminate the import tariffs because the reality is that national production is not enough, and with expensive grains, the option of withdrawing the taxes has to be analyzed," said Manuel Molano, Advisor for the Mexican Institute of Competitiveness (IMCO). (Source: Reforma 04/30/2008)

FOOD PRICES IMPACTING THE POOR

The Organization for Cooperation and Economic Development (OCDE) stated that the poorest sectors of Mexico could be the areas most affected by the increase in food prices. According to surveys by the National Institute of Statistics, Geography and Systems (INEGI), more than half of Mexicans spend 30 percent of their income on food and beverages consumed inside their home. This tendency gets worse for lower income homes, which spend 42 percent of their income on food. Rocio Ruiz, the Undersecretary for Industry and Commerce within the Secretary of Economy, reported stability in the price of basic products. However, the bayo bean registered an increase of one peso per kilogram, while rice increased three pesos per kilogram. Ruiz stated that although some prices are stable, they anticipate an eventual shortage. "If it is necessary to have import cupos to supply other products together with the Secretary of Agriculture, then we will analyze the opportunity to import from other trading partners," said Ruiz. The Embassy of the United States assured that grain exports to Mexico would not be reduced. (Source: El Universal 04/30/2008)

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MX8028	Weekly Highlights and Hot Bites #15	4/25/08
MX8026	Sugar Annual	4/15/08
MX8025	Weekly Highlights and Hot Bites #14	4/11/08
MX8024	Oilseeds Annual	4/10/08
MX8023	Pork Subsidy Announcement	4/8/08
MX8022	Weekly Highlights and Hot Bites #13	4/4/08
MX8021	Weekly Highlights and Hot Bites #12	3/28/08
MX8020	Modifications to Authorized Crossing Border Points for Specific Agricultural Commodities	3/26/08
MX8019	Weekly Highlights and Hot Bites #11	3/14/08
MX8017	Grain & Feed Annual	3/10/08

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